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Annual Audit Report 2018 – **Cardiff and Vale University Local Health Board**

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Summary report

About this report

- 1 This report summarises the findings from the audit work I have undertaken at Cardiff and Vale University Health Board (the Health Board) during 2018. I did that work to carry out my responsibilities under the Public Audit (Wales) Act 2004. That Act requires me to:
 - a) examine and certify the accounts submitted to me by the Health Board, and to lay them before the National Assembly;
 - b) satisfy myself that the expenditure and income to which the accounts relate have been applied to the purposes intended and in accordance with the authorities which govern it; and
 - c) satisfy myself that the Health Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 I have reported my findings under the following headings:
 - key messages;
 - audit of accounts; and
 - arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 3 I have issued several reports to the Health Board this year. This annual audit report is a summary of the issues presented in these more detailed reports, a list of which is included in [Appendix 1](#).
- 4 [Appendix 2](#) presents the latest estimate on the audit fee that I will need to charge to cover the actual costs of undertaking my work at the Health Board, alongside the original fee that was set out in the 2018 Audit Plan.
- 5 [Appendix 3](#) sets out the significant financial audit risks highlighted in my 2018 Audit Plan and how they were addressed through the audit.
- 6 The Chief Executive and the Director of Finance have agreed this report is factually accurate. We presented it to the Audit Committee on 26 February 2019. The Board will receive the report at a later Board meeting and every member will receive a copy. We strongly encourage the Health Board to arrange wider publication of this report. We will make the report available to the public on the [Wales Audit Office website](#) after the Board have considered it.
- 7 I would like to thank the Health Board's staff and members for their help and co-operation during the audit work my team has undertaken over the last 12 months.

Key messages

Audit of accounts

- 8 I have concluded that the Health Board's accounts were properly prepared and materially accurate, and my work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts. I have therefore issued an unqualified opinion on their preparation. I did however report some recommendations for improvement to officers and the Audit Committee, which they are addressing for the 2018-19 accounts.
- 9 The Health Board did not achieve financial balance for the three-year period ending 31 March 2018 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts.
- 10 Alongside my audit opinion, I placed a substantive report on the Health Board's financial statements to highlight its failure to achieve financial balance and its failure to have an approved three-year plan in place.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

- 11 My 2018 structured assessment work at the Health Board has found that:
 - Some governance arrangements have improved but I have concerns about risk management and some other basic governance processes.
 - The Health Board's 2015 vision remains relevant and strategic planning arrangements are generally sound but better performance monitoring arrangements are needed.
 - While the Health Board has a wide array of challenges for ensuring effective use of its resources, it mostly recognises where it needs to improve and has recently created a transformation programme to help improve performance and efficiency.
- 12 My wider programme of work includes reviews of Primary Care services and the Integrated Care Fund. Both reviews have found some aspects of good practice as well as opportunities to improve arrangements for securing efficient, effective and economical use of resources. The Health Board takes part in the National Fraud Initiative, but its response has been inadequate and has made limited use of the data matches released in 2017. These findings are considered further in the following sections.
- 13 During the year, I also reported on Follow-up outpatient services, Radiology services and NHS Informatic Services at an all Wales level. My engagement team presented these reports to your Audit Committee and highlighted the national and local aspects of good practice and any areas for improvement. Any recommendations made in my national reports that are relevant to the Health Board are routinely adopted into the Health Board's recommendation tracking system.

Detailed report

Audit of accounts

- 14 This section of the report summarises the findings from my audit of the Health Board's financial statements for 2017-18. These statements are how the organisation shows its financial performance and set out its net operating costs, recognised gains and losses, and cash flows. Preparing the statements is an essential element in demonstrating appropriate stewardship of public money.
- 15 In examining the Health Board's financial statements, I must give an opinion on:
- whether they give a true and fair view of the financial position of the Health Board and of its income and expenditure for the period in question;
 - whether they are prepared in accordance with statutory and other requirements, and meet the relevant requirements for accounting presentation and disclosure;
 - whether that part of the remuneration report to be audited is properly prepared;
 - whether the other information provided with the financial statements (usually the annual report) is consistent with them; and
 - the regularity of the expenditure and income in the financial statements.
- 16 In giving this opinion, I have complied with my Code of Audit Practice and the International Standards on Auditing (ISAs).

I have issued an unqualified opinion on the accuracy and proper preparation of the 2017-18 accounts of the Health Board, although in doing so I have brought some issues to the attention of officers and the Audit Committee

- 17 I have concluded that the Health Board's accounts were properly prepared and materially accurate. I found most of the information provided by the Health Board to be timely, accurate and reliable, and easy to understand. I concluded that the Health Board's accounting policies and estimates are appropriate and the accounting disclosures to be unbiased, fair and clear.
- 18 I reviewed those internal controls that I considered to be relevant to the audit to help me identify, assess and respond to the risks of material misstatement in the accounts. I did not consider them for the purposes of expressing an opinion on the operating effectiveness of internal control. My work did not identify any material weaknesses in the Health Board's internal controls relevant to my audit of the accounts.
- 19 I did however report some recommendations for improvement to officers and the Audit Committee. I will be reviewing the Health Board's implementation of those recommendations as part of my audit of the 2018-19 accounts.

20 I must report issues arising from my work to those charged with governance before I issue my audit opinion on the accounts. My Financial Audit Engagement Lead reported these issues to the Health Board's Audit Committee, and to the Board, on 31 May 2018. **Exhibit 1** summarises the key issues set out in that report.

Exhibit 1: issues identified in the Audit of Financial Statements Report

The following table summarises and provides comments on the key issues identified.

Issue	Auditors' comments
Uncorrected misstatements	I reported four uncorrected misstatements which totalled £44,184.
Corrected misstatements	I reported the four most significant corrected misstatements. The four reported corrections related to accounting disclosures. Such errors mean that while the underlying transactions were correct, they had been disclosed incorrectly in the accounts.
Other significant issues	The main significant weakness was the absence of numerous related party returns from some of the Health Board's independent members. I had raised a recommendation on this area the previous year, so I was disappointed that the procedural weakness had remained. The lack of returns was particularly important as I audit related party disclosures to a far lower level of materiality.

21 As part of my financial audit, I also undertook a review of the Whole of Government Accounts return. I concluded that the counterparty consolidation information was consistent with the financial position of the Health Board at 31 March 2018 and the return was prepared in accordance with the Welsh Government's instructions.

22 My separate audit of the charitable funds' accounts has also concluded. On 13 December 2018 my Financial Audit Manager reported the results of the audit to the Trustee, and I certified the accounts on 18 December.

I have issued a qualified audit opinion on the regularity of the financial transactions within the accounts of the Health Board and placed a substantive report alongside this opinion to highlight its failure to meet its statutory financial duties

23 The Health Board did not achieve financial balance for the three-year period ending 31 March 2018 and so I have issued a qualified opinion on the regularity of the financial transactions within its 2017-18 accounts.

24 The Health Board's financial transactions must be in accordance with authorities that govern them. It must have the powers to receive the income and incur the

expenditure that it has. Our work reviews these powers and tests that there are no material elements of income or expenditure which the Health Board does not have the powers to receive or incur.

- 25 Where a Health Board does not achieve financial balance, its expenditure exceeds its powers to spend and so I must qualify my regularity opinion. **Exhibits 2 and 3** set out the Health Board's financial performance for the three years to 31 March 2018. **Exhibit 2** shows that the Health Board has failed to meet its revenue resource allocation for the three years, which resulted in my qualified regularity opinion. **Exhibit 3** shows that the Health Board has met its capital resource allocation.

Exhibit 2: financial performance against the revenue resource allocation

	2015-16	2016-17	2017-18	Total
	£'000	£'000	£'000	£'000
Operating expenses	828,019	914,221	899,060	2,641,300
Revenue resource allocation	828,087	884,978	872,207	2,585,272
Under (over) spend against allocation	68	(29,243)	(26,853)	(56,028)

Exhibit 3: financial performance against the capital resource allocation

	2015-16	2016-17	2017-18	Total
	£'000	£'000	£'000	£'000
Capital charges	40,967	42,026	47,033	130,026
Capital resource allocation	41,027	42,104	47,121	130,252
Under (over) spend against allocation	60	78	88	226

- 26 I have the power to place a substantive report on the Health Board's accounts alongside my opinions where I want to highlight issues. Due to the Health Board's failure to meet its financial duties I issued a substantive report setting out the factual details, in that it:
- failed its duty to achieve financial balance (as set out above); and
 - continued not to have an approved three-year plan in place and has been working to an annual operation plan, which the Board approves each year.

Arrangements for securing efficiency, effectiveness and economy in the use of resources

27 I have a statutory requirement to satisfy myself that NHS bodies have proper arrangements in place to secure efficiency, effectiveness and economy in the use of their resources. I have undertaken a range of performance audit work at the Health Board over the last 12 months to help me discharge that responsibility. This work has involved:

- assessing the effectiveness of the Health Board's governance and assurance arrangements;
- reviewing the Health Board's approach to strategic planning;
- examining the arrangements in place for managing the Health Board's finances, workforce, assets and procurement;
- specific use of resources work on Primary Care services and regional partnership working;
- reviewing the Health Board's arrangements for tracking progress against external audit recommendations; and
- assessing the application of data-matching as part of the National Fraud Initiative (NFI).

28 My conclusions based on this work are set out below.

Some governance arrangements have improved but we have concerns about risk management and some other basic governance processes

29 My structured assessment work examined the Health Board's governance arrangements, the way in which the Board and its sub-committees conduct their business, and the extent to which organisational structures are supporting good governance and clear accountabilities. I also looked at the information that the Board and its committees receive to help them oversee and challenge performance and monitor the achievement of organisational objectives. I found the following:

30 **The Health Board is taking steps to improve board and committee arrangements but has not yet achieved consistent good practice across the organisation.** My work found some improvements in scrutiny and challenge at the Board and its key committees¹. Recent changes to Board and committee working are positive but success will depend on these changes being successfully

¹ As part of our structured assessment work, we observed the Board and the following committees – Finance Committee, Quality Safety and Experience Committee, Strategy and Delivery Committee and Audit Committee.

embedded. Importantly, my structured assessment work has pointed to opportunities to strengthen the way the Audit Committee works. I am pleased to note that improvements are underway to address the concerns identified.

- 31 **Delays in revising the corporate risk assurance framework means that until recently the Board has had insufficient oversight of strategic risks.** My work found the Health Board's revisions to its Corporate Risk and Assurance Framework was slow. This meant that corporate risks were not fully visible to, or scrutinised by, the Board. The Health Board has recently decided to revise its approach completely and develop a Board Assurance Framework (BAF) and a separate corporate risk register. It is making good progress with this. These developments should make it easier for the Board and its committees to scrutinise and challenge.
- 32 **I found some areas of sound practice, but the Health Board needs to make several significant improvements to its system of assurance.** My work found that the Health Board has some good arrangements for quality governance and is making further improvements.
- 33 In 2017, I reported that performance information reported at committee level was less detailed than that reported to Board. This is still the case and appears contrary to the Board's stated intention to take a more strategic view by accepting higher levels of scrutiny and assurance at its committees. The Health Board has strengthened the way clinical boards are performance managed but the overall performance management framework needs updating.
- 34 My work also found several weaknesses in the systems of internal control that support board assurance. In particular, the Audit Committee has lacked a consistent and comprehensive way to keep track of, and manage, the streams of assurance it receives from different groups and organisations.
- 35 **The Health Board needs to urgently improve information governance arrangements and strengthen its cyber security framework.** Improvements to cyber security arrangements have been identified and the Health Board is planning to make improvements.
- 36 In 2018 the Information Governance and Information Technology sub-committee² oversaw the Informatics department's work. The sub-committee's focus on operational matters has been detrimental to more strategic issues such as overseeing strategic plan delivery and managing assurances. For example, the Health Board:
- did not achieve the May 2018 GDPR compliance deadline, and is now aiming to be fully compliant by May 2019;
 - has not yet fully addressed all the ICO's 2016 recommendations and most identified actions remain incomplete;

² This reports to the Strategy & Delivery Committee

- is not compliant with various information standards and remains well below the national targets (eg Caldicott Information Confidentiality, Freedom of Information Act and Data Protection Act requests); and
- does not have a routine approach to updating and testing its IT disaster recovery plans.

The Health Board's 2015 vision remains relevant and strategic planning arrangements are generally sound but better performance monitoring arrangements are needed.

- 37 My work examined how the Board engages partners and sets the strategic direction for the organisation. I also assessed how well the Health Board plans the delivery of its objectives and how it monitors progress in delivering the plans.
- 38 The Health Board's 10-year strategy [Shaping our Future Wellbeing Strategy: 2015-25](#)³ was developed following extensive stakeholder consultation. Further engagement activity is also shaping the 10-year strategy's underpinning work programmes and other plans.
- 39 The IMTP submitted to Welsh Government in January 2018 was not accepted due to the funding assumptions it was based on. Since then the Health Board has been working to an Annual Operational Plan (AOP). The Health Board is preparing its 2019-21 IMTP for submission to Welsh Government. My 2017 structured assessment reported that the Health Board's planning process was generally sound. Since then there have been no significant changes to the process, other than some refinements.
- 40 Finally, my work assessed the monitoring of strategic plans and change programmes. My 2017 structured assessment recommended that the Strategy and Delivery (S&D) Committee should regularly examine the progress of AOP delivery. This year we found the S&D Committee receives progress reports on individual areas of the AOP. However, we found no evidence that the S&D Committee receives an overall or collated progress summary against all AOP deliverables. The Board receives updates on the development of the future IMTP, but we did not find any evidence of the Board receiving progress updates on AOP delivery.

³ Shaping Our Future Wellbeing 2015-2025.

Whilst the Health Board has a wide array of challenges for ensuring effective use of its resources, it mostly recognises where it needs to improve and has recently created a transformation programme to help improve performance and efficiency.

- 41 My structured assessment work examined the Health Board's arrangements for managing its workforce, its finances and other physical assets to support the efficient, effective and economical use of resources. I also considered the arrangements for procuring goods and services, and the action being taken to maximise efficiency and productivity. My findings are set out below.
- 42 **The Health Board is improving its financial management and is aiming for a balanced annual position by 2020-21 but is still projecting a deficit position at the end of 2018-19.** For the financial year 2017-18, the Health Board operated within its capital resource limit for both the annual limit and the three-year limit. For 2017-18, the Health Board reported a £26.8 million deficit against the revenue resource limit and a £56 million deficit against the three-year total revenue resource limit. For 2018-19 the Health Board expects to operate within its capital resource limit and improve its annual revenue position, albeit with a forecast deficit of £9.9 million. This forecast deficit takes account of the conditional £10 million extra revenue funding from Welsh Government.
- 43 The Health Board has satisfactory financial management and control arrangements and effective arrangements for identifying savings and developing savings plans. The Health Board is engaged in the All Wales Costing System Implementation Project. This is expected to provide improved understanding of costs and income, both internally and compared with other health bodies, which should help to deliver a balanced financial position.
- 44 **The Health Board is aware of its workforce challenges and is developing plans to tackle them but has so far failed to address consultant job planning.** Sickness absence has a financial impact on health board budgets, such as the need for agency and temporary staff. The Health Board's overall sickness rate rose slightly between 2017 and 2018 but was still slightly below the Wales average. The Health Board has plans to better understand sickness absence and aims to reduce it to 4.2% by 2020-21.
- 45 Several initiatives are underway to try and reduce the use of medical and nursing temporary staff. In 2017 the Health Board stopped using off-contract agency staff and it aims to continue this during 2018-19. My work found that agency staff expenditure was lower than other health boards. However, the July 2018 overall vacancy rate had risen to 3.2% (2.6% July 2017).
- 46 The Health Board recognises that a sustainable workforce may need fundamental changes in design, composition and deployment. The workforce and organisational

development plan outlines how the Health Board will use workforce transformation to achieve its vision in the 10-year strategy.

- 47 My work found the Health Board's performance was below the national targets for staff appraisal rates and compliance with statutory and mandatory training. The Health Board has plans to improve in these areas.
- 48 Despite many years' work by the Health Board, in 2016 my work found consultant job planning practice was still variable. The target for consultant job plan compliance is 85%, but at August 2018 the Health Board's compliance rate was 50%. In 2018 an Internal Audit review of consultant job planning arrangements found them to provide limited assurance.
- 49 **The Health Board has invested in procurement and has detailed procurement plans and effective arrangements for monitoring procurement activity and spend.** The NHS Wales Shared Services Partnership – Procurement Service manages most of the Health Board's procurement. There is an all-Wales Procurement Strategy, which is underpinned by an all-Wales business plan. The Health Board has provided extra staff for the procurement team, which is well organised and integrated with the clinical boards. Each year the Head of Procurement develops a Health Board specific project for procurement improvements. Also, procurement is part of the Health Board's cost improvement programme. In 2017-18, the Health Board made good progress against its cost improvement savings target of £2 million.
- 50 **Asset management strategies are at different levels of development and several asset related risks may need stronger corporate oversight.** The Health Board does not have an overarching asset management strategy. Instead it has several separate strategies for estates, medical equipment and IT, each at different stages of development. The Health Board's management of some significant asset related risks has been weak. This was partly due to the absence of an up-to-date and meaningful corporate risk register.
- 51 The Health Board is facing some significant asset related risks:
- estate backlog maintenance costs are currently around £130 million. High backlog maintenance is a risk because it diverts funding from proactive to reactionary maintenance.
 - there are several important IT risks including the local impact of national IT system failures; cyber security threats; national IT programme delays and a lack of internal capacity to deliver new projects at the same time as maintaining business as usual operations.
- 52 **Despite improvements, some activity targets remain challenging and the Health Board has established a transformation programme to increase performance and efficiency.** The Health Board continues to work in a challenging environment and recognises where it needs better performance. Despite improvement in some areas, achieving some waiting time targets remains a challenge. For example, the Health Board is failing to deliver against its targets for urgent suspected cancer cases and 26 weeks from referral to start of treatment.

These difficulties are reflected in the Health Board's strategic and transformational plans. The recently introduced transformation programme is designed to accelerate delivery of its 10-year strategy, support efficient working and improve service performance. This has been influenced by learning from Canterbury Health Board in New Zealand and takes a whole-system, multi-disciplinary approach.

- 53 **The Health Board has not matched its strategic approach to informatics with realistic investment and governance, which is creating some risks.** The Health Board is aiming to bring information and information technology closer together. As a result, it is reviewing the governance arrangements for the information and information technology functions. In 2019 the Health Board plans to revisit its informatics Strategic Outline Programme. Digital projects will be prioritised into a digital transformation strategy that is consistent with Health Board priorities and the available budget. Digital technology has the potential to improve productivity and deliver efficiencies. But success relies on the Health Board having a modern and resilient IT infrastructure. Some IT infrastructure and technology upgrades took place in 2017-18. However, limited resources may restrain the extent of IT support for operational service change. Ageing IT infrastructure may also present business continuity and resilience risks.

My wider programme of work shows the Health Board is responding to change, but more work is needed, and it has been slow in addressing some of my recommendations

My emerging findings on the Integrated Care Fund show that it is having some positive impacts, but the Regional Partnership Board has some issues to resolve

- 54 I have completed the fieldwork for my cross-sector review of the Integrated Care Fund (the fund). I intend to prepare a national summary report early in 2019, setting out my all-Wales findings. My audit team has already presented local findings to Regional Partnership Boards. The key messages for the Cardiff and Vale Regional Partnership Board are:
- the fund has had a positive impact in bringing organisations together across the Cardiff and Vale region. Health and local authority partners engage well with each other. This is because of clear communication channels, a culture of trust and a continued focus on achieving outcomes. However, some partners lack the capacity to contribute and engage fully. There is potential to clarify and improve the links between the Regional Partnership Board and Public Service Boards on a regular basis.
 - decisions about the use of the fund are largely delegated to sub-groups of the Regional Partnership Board. These arrangements are broadly working well, although there is scope to review the membership of the Integrated Care Fund Programme Board and the Senior Leadership Group to ensure the independence and objectivity of decision makers is not compromised.

- due to the fund's annual nature the region recognises that it has not always used the fund strategically to develop services based on need, but it does have good project management arrangements in place.
- there is general agreement that the fund is supporting the right projects and having a positive impact on service users. But like other regional partnership boards across Wales, very few projects are subsequently transitioned into regular operational services. The Cardiff and Vale region is attempting to demonstrate outcomes more clearly, but this is challenging.

The Health Board is making progress with its ambitious primary care plans and workforce pressures are less than in some other areas, but primary care performance is mixed, and several challenges remain

- 55 I found that the Health Board's primary care plan (the plan) is part of a wider strategy to move care closer to home. The plan aligns with the key elements of the national primary care plan. However, the plan does not consider the impact of Cardiff housing developments on projected population growth. Also, there is scope to strengthen consultation. All GP clusters have been supported to develop plans that feed into the Health Board's overall primary care plan. However, GP cluster maturity varies and representation from some stakeholders is limited.
- 56 The format of the accounts makes it difficult to accurately calculate the Health Board's overall investment in primary care and therefore whether it is changing and by how much. Despite this, the Health Board has some specific examples where it has transferred resources towards primary care. However, large-scale change is being hampered by:
- a lack of understanding of the mechanisms for transferring funding across budgets and service areas;
 - little or no budgetary guidance for transferring funding;
 - the current financial deficit, which makes it difficult to identify funding streams for transfer to primary care; and
 - plans that lack detail on the financial impact of service transfers prior to implementation of schemes.
- 57 The Health Board closely monitors cluster spending, but cluster leads have raised concerns about delays in financial decision making and identifying funds to transition successful pilots to mainstream practice. Primary care is a growing priority in the Health Board, but performance reporting continues to focus more on secondary care.
- 58 At present primary care workforce pressures are less severe than in some other areas, but they are increasing. The Health Board's planning identifies a future shortfall in GPs and an ageing nurse workforce. It is introducing several new roles to try and offset some of these pressures. The Health Board has made some progress with implementing multi-professional teams but there has been limited evaluation of this so far.

59 Unlike many parts of Wales, the Health Board is not directly managing any practices. However, Health Board information shows that General Medical Services have become increasingly fragile over the last year, so longer term sustainability is an issue. The Health Board's GP Support Unit works in a mainly reactive way to requests from individual practices. With this way of working, there is a risk that the unit only supports practices once they begin to experience significant issues, rather than more proactively engaging practices earlier.

The Health Board has been slow in addressing some recommendations from my previous work and it needs to improve how it monitors and tracks this.

60 My work has found that the Health Board has been slow at addressing my recommendations and in some cases has made limited progress. The Health Board received the 2017 structured assessment report in February 2018. The Audit Committee finally received the completed management response on 25 September 2018 with a six-month update that showed limited progress against our recommendations. It was the only NHS body not to provide a management response before we started our 2018 structured assessment work.

61 I have also undertaken detailed follow-up audit work to assess the Health Board's progress in addressing recommendations arising from previous audit work on managing medical equipment. The findings from this follow-up work are summarised in [Exhibit 4](#).

Exhibit 4: progress in implementing audit recommendations in specific service areas

Area of follow-up work	Conclusions and key audit findings
Follow-up review of Medical Equipment:	<p>The Health Board has made some progress in addressing recommendations made in our 2013 report, but more action is needed.</p> <p>I found the Health Board had implemented one recommendation fully and had made some progress against the remaining six recommendations.</p> <p>I concluded that the Health Board:</p> <ul style="list-style-type: none"> • has adequate assurance and internal control processes for medical equipment but these could be improved; • has introduced an integrated working approach for capital spending, but collaboration on medical equipment across operational services is still a problem; • does not have a defined approach to the replacement of medical equipment under £5,000; • does not review medical equipment issues/incidents at clinical board level; • has not introduced a single medical equipment inventory; and • has not evaluated the medical equipment arrangements within pathology services (laboratory medicine).

The investigation of potential fraud, highlighted by the latest National Fraud Initiative exercise, has been inadequate.

- 62 Every two years, the National Fraud Initiative (NFI) uses a data-matching exercise to help detect fraud and overpayments by matching data across organisations and systems. It is an effective tool for public bodies to strengthen their anti-fraud and corruption arrangements. The last exercise in January 2017 provided the Health Board with 851 high-risk matches. By November 2018 the Health Board had reviewed only 448 (53%) of these.
- 63 Whilst there has been progress in reviewing high risk matches, I am concerned that the Health Board is not using NFI effectively and potentially missing opportunities to identify fraud associated with issues such as undeclared staff interests with the Health Board's suppliers. Whilst, the Health Board has reviewed some overpayments and recovered these, it has not reviewed all such matches and it does not have a robust way to prevent duplicate payments. The Health Board also needs to ensure that where it has reviewed matches, it adequately records these.
- 64 The outcomes of the next NFI exercise will be available early in 2019. The Health Board should ensure that all recommended matches are reviewed and where necessary investigated in a timely manner.

Appendix 1

Reports issued since my last annual audit report

Exhibit 5: reports issued since my last annual audit report

The following table lists the reports issued to the Health Board in 2018.

Report	Month issued
Financial audit reports	
Audit of Financial Statements Report	May 2018
Opinion on the Financial Statements	June 2018
Audit of Financial Statements Report Addendum - Recommendations	September 2018
Audit of the Charitable Funds' Financial Statements Report	December 2018
Opinion on the Charitable Funds' Financial Statements	December 2018
Performance audit reports	
Managing medical equipment – follow up review	June 2018
Primary Care	November 2018
Structured Assessment 2018	February 2019
Other reports	
2018 Audit Plan	February 2018

Exhibit 6: performance audit work still underway

There are several performance audits that are still underway at the Health Board. These are shown in the following table, with the estimated dates for completion of the work.

Report	Estimated completion date
Clinical coding follow-up	April 2019
Operating Theatres follow-up	July 2019
Follow up of previous IT reviews	July 2019
Orthopaedic Services follow-up	October 2019

Appendix 2

Audit fee

The 2018 Audit Plan set out the proposed audit fee of £415,652 (excluding VAT, which is not charged). My latest estimate shows that the financial audit work has incurred additional costs of £3,319, which the Health Board is aware of. The performance audit work remains in progress and is in keeping with the fee set out in the outline. I will keep this under review and inform the Health Board of any changes.

Within the fee set out above, the audit work undertaken on the shared services provided to the Health Board by the NHS Wales Shared Services Partnership cost £10,266.

Appendix 3

Significant financial audit risks

Exhibit 7: significant audit risks

My 2018 Audit Plan set out the significant financial audit risks for 2018. The table below lists these risks and sets out how they were addressed as part of the audit.

Significant audit risk	Proposed audit response	Work done and outcome
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA⁴ 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business. 	<p>I reviewed several the accounting estimates and a sample of transactions that included journal entries. I did not identify any issues to report.</p>
<p>Under the NHS Finance (Wales) Act 2014, health boards ceased to have annual resource limits with effect from 1 April 2014. They instead moved to a rolling three-year resource limit, with the first three-year period running to 31 March 2017. To date the Health Board has not exceeded its capital resource limits. However, with regard to revenue, for the three years to 31 March 2017 the Health Board had a three-year revenue deficit of £50.5 million (I therefore qualified my regularity opinion on the Health Board's 2016-17 financial statements).</p>	<p>My audit team will continue to monitor the Health Board's financial position for 2017-18, and for the cumulative three-year position to 31 March 2018.</p> <p>This review would also take into account the impact of any relevant uncorrected misstatements over those three years.</p> <p>If the Health Board fails to meet the three-year resource limits for revenue and/or capital, I would expect to qualify my regularity opinion on the 2017-18 financial statements. I would also expect to place a substantive report on the statements to explain the basis of the qualification and the circumstances under which it had arisen.</p>	<p>As reported at pages 8 to 10 of this report, the Health Board did not meet its three-year revenue resource allocation. I therefore qualified my regularity opinion on the accounts.</p>

⁴ International Standards on Auditing

Significant audit risk	Proposed audit response	Work done and outcome
<p>For 2017-18, the Health Board expects to exceed its annual revenue resource allocation by £30.9 million; which would mean an increased cumulative deficit of £60.1 million and for the three years to 31 March 2018.</p>		
<p>The Health Board has not yet submitted its Integrated Medium-Term Plan (IMTP) to the Welsh Government for 2017-18 and has therefore failed to meet its statutory requirement.</p>	<p>My audit team will ensure that appropriate disclosure is made in the financial statements. If an approved IMTP is not in place, I would expect to place a substantive report on the financial statements.</p>	<p>As reported at pages 8 to 10 of this report, the Health Board failed this financial duty and I placed a substantive report on the accounts.</p>
<p>The five-yearly valuation of all land and buildings has taken place during 2017-18, with all assets revalued at 1 April 2017.</p> <p>Previous revaluations had seen NHS bodies revalue their land and buildings on a different basis. For example, they may have been valued on either a site, block, or individual building's basis). For the 2017-18 revaluation exercise all revaluations must be at a building level, which could result in material movements in the value of assets.</p> <p>There is the risk of material misstatement arising from these complex accounting transactions.</p>	<p>My audit team will review the methodology used to revalue land and buildings assets and audit the resulting revaluations and accounting entries.</p>	<p>The audit results were satisfactory except for the identification of some erroneous accounting entries, which the Health Board corrected. The correction was one of the four corrections that I mention within Exhibit 1 of this report.</p>
<p>I audit some of the disclosures in the Remuneration Report, such as the remuneration of senior officers and independent members, to a lower materiality due to their sensitivity.</p>	<p>My audit team will review all entries in the Remuneration Report and ensure that all known changes (for example from our review of the minutes of the Board and the Remuneration Committee) have been accurately and completely</p>	<p>The audit results were satisfactory.</p>

Significant audit risk	Proposed audit response	Work done and outcome
<p>In 2016-17 there were numerous changes to the Health Board's senior positions, which led to material misstatements that had to be corrected.</p> <p>In 2017-18 there have been further changes to senior positions, which again increase the risk of misstatement.</p>	<p>recorded in the Remuneration Report.</p>	
<p>The Welsh Government is required to approve all Health Board contracts that exceed £1 million. In previous years, for some contracts, the Health Board failed to seek Welsh Government approval, which it had then sought retrospectively. Contracts awarded without the required Welsh Government approval may give rise to irregular expenditure, which if material (individually or collectively) would affect my regularity opinion.</p>	<p>My audit team will review the procurement department's log of contracts and obtain evidence of Welsh Government approval for those that exceed £1 million.</p>	<p>The audit results were satisfactory.</p>

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